

In This Issue . . .

- 1 *Department Announces Hearing Decision*
- 2 *Milk Production Summary*
- 2 *Minimum Class Prices*
- 2 *December Hay Summary*
- 3 *2002 Assessment Rates for CMAB and CMMAB*
- 3 *Dairy Farmers Using Wind Turbines*
- 3 *Manure Digestion Facility Opens in Chino Basin*
- 3 *New Security Measures at CDFA Headquarters*
- 4 *Producer News . . .*
- 4 *Milk Production Cost Index for California*
- 5 *California Alfalfa Industry Market Trends*
- 7 *CMPB Appointments*
- 7 *Getting to Know Us . . .*
- 7 *In Memoriam*
- 8 *Mailbox Prices*

Department Announces Hearing Decision

On November 29, 2001, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The amendments under consideration regarded an increase in the manufacturing cost allowances for processing raw milk into dairy products because of increased energy costs dairy processing plants have incurred. Having carefully weighed the contents of the hearing record, the Department has determined that these allowances should be increased.

The increase in allowances will result in processors having to pay less for farm milk because of higher operating costs. The adjustment will take effect for milk delivered to processing plants on or after January 1, 2002.

Evidence and testimony entered into the hearing record documented higher costs for both electricity and natural gas that dairy processors have paid over the past 18 months. These higher costs have significantly affected dairy processing plants' overall operating costs.

The adjustments to the minimum pricing formulas will be as follows:

- ◆ For Butter and Whey Butter – the manufacturing cost allowance is increased from 9.7 to 10.2 cents per pound of finished product.
- ◆ For Cheese – the manufacturing cost allowance is increased from 16.9 to 17.6 cents per pound of finished product.
- ◆ For Nonfat Dry Milk – the manufacturing cost allowance is increased from 14.0 to 16.1 cents per pound of finished product.

Because the Class 2 (cream, yogurt and cottage cheese) and Class 3

See **DECISION** on Page 7

November Milk Production

Estimated milk production in California for November 2001 totaled 2.7 billion pounds, up 4.0 percent from November 2000. USDA's estimate for U.S. milk production for November 2001 in the 20 major dairy states is 11.4 billion pounds, up 0.4 percent from November 2000. Production per cow in the 20 major states averaged 1,480 pounds for November, which is 21 pounds above November 2000. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	Nov. 2001	Dec. 2001	Jan. 2002
1	\$16.28	\$13.74	\$13.64
2	\$15.89	\$12.93	\$12.93
3	\$15.72	\$12.76	\$12.76
4a	\$11.73	\$11.45	—
4b	\$10.60	\$10.97	—

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Dec. 2001	Jan. 2002
Phoenix, Arizona	\$14.33	\$14.31
Southern California	\$13.88	\$13.78
Portland, Oregon	\$13.88	\$13.86
Northern California	\$13.61	\$13.51

California Alfalfa: December

Northern California: December brought steady rain and snow showers throughout the northern area, with the snow pack ahead of normal accumulation and building. Premium and Supreme alfalfa trading was steady in light test, preferring good condition, quality hay. Most movement was on previously purchased supplies. Fair and Good alfalfa trading was not fully established on very light sales. Most hay coming out of barns now with Retail and Stable hay fully steady with good demand.

Southern California: This month showed Premium and Supreme alfalfa not tested. Good alfalfa dairy hay trading steady for quality and condition of hay. Fair alfalfa has been trading steady to firm for condition of hay (some with faults). Retail and Stable hay trading steady to mostly firm, with most supplies coming out of barns or tarp-covered storage. Northern buyers are showing interest in final cutting of hay, hoping for good test. Contracting of hay is slow compared to previous years. ☀

Shown below are alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA.

Alfalfa Hay Sales and Delivery November/December, 2001

	November 2001	December 2001*
Tons Sold ¹	87,948	72,425
Tons Delivered ²	46,537	18,235

*(Only 3 weeks reported, no report for 12/28)

¹ For current or future delivery.

² Contracted or current sales.

California Supreme Hay Prices

Statewide average hundredweight prices

Area	December 2001 Prices			
	12/7	12/14	12/21	12/28
Petaluma	—	—	\$180-185	No report
North Valley ¹	\$175	\$175-188	\$192	No report
South Valley ²	\$175-190	\$180-190	\$180-187	No report
Chino Valley	—	—	—	No report

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

For current pricing information and reports on the FOB market, you may subscribe to the California Alfalfa Hay Weekly Summary by calling (509) 765-3611. Weekly reports are available on the Internet at:

<http://www.ams.usda.gov/marketnews.htm>



California Department of Food & Agriculture

William (Bill) Lyons Jr., Secretary
Robert "Tad" Bell, Undersecretary
Daniel E. Webb, Deputy Secretary
Valerie Brown, Deputy Secretary
Vanessa Arellano, Assistant Secretary

The California Department of Food and Agriculture, Dairy Marketing Branch publishes the California Dairy Review monthly. To subscribe, call (916) 654-1456. Please direct any comments or suggestions for future newsletters to Karen Dapper at (916) 654-1456 or send an e-mail to dairy@cdfa.ca.gov

2002 Assessment Rates Established for CMAB and CMMAB

The Department recently approved the 2002 assessment rates applicable to the California Milk Advisory Board (CMAB) and the California Manufacturing Milk Advisory Board (CMMAB). These two producer-funded programs conduct dairy promotion and research activities on behalf of California's dairy farmers.

The 2002 CMAB assessment rate for market milk and the 2002 CMMAB assessment rate for manufacturing milk have both been set at ten cents (**\$0.10**) per hundredweight. These rates are unchanged from the 2001 rates.

As in the past, these assessments will be collected from the first handlers who purchase or otherwise acquire possession of milk from producers. Each handler shall in turn deduct such assessments from payment owed to their producers.

Please call Dennis Manderfield of the CDFA Marketing Branch at (916) 654-1245 if you have any questions about these assessments.



Dairy Farmers Using Wind Turbines

Four dairy farmers in northern California are installing wind turbines - modern day windmills capable of producing 10,000 watts of electricity. The State's continuing efforts to encourage farmers to generate their own power, and in effect, take strain off the power grid, sparked these energy incentive programs. The State Energy Commission and state and federal tax credits covered 75% of the cost of the wind turbines. While the turbines are sending electricity to PG&E during the winter months, the dairies will gain credit for the summer months when irrigation pumps use electricity and drive the electric bills upward. It is hoped that their PG&E electricity bills will average out to \$0 dollars in the long run.



Manure Digestion Facility Opens in Chino Basin

In late November, 2001, a methane digester in Chino, California, started operating and producing biogas from dairy manure. The digester will be able to process 225 tons of manure per day from approximately 3,750 dairy cows. The plant operates 24 hours a day, 6 days a week, and anticipates biogas production of 210,000 cubic feet per day. Approximately 30% of the biogas will be used to generate electricity at the project site using four Capstone microturbines to run the digester facility equipment. The remaining gas will be sent to two Waukesha generators to power an off-site groundwater desalting facility. In addition, digested manure will be dewatered on-site and transported to a composting facility and converted into a fertilizer/soil amendment product. Other noted benefits of this manure digestion facility are: the enclosed building to control noise and odor, extremely low air emissions, reduction of groundwater pollution by managing daily-generated manure, reduction of air pollution by collecting biogas, it provides a renewable energy source by converting biogas to electricity, and it produces beneficial methane gas through anaerobic digestion.

This project represents a public-private partnership between Inland Empire Utilities Agency, Milk Producers Council, and Synagro's Agribusiness Service Group to demonstrate a solution to manure management issues in the Chino Basin. The United States Department of Agriculture Natural Resources Conservation Service and the State of California Energy Commission jointly funded the facility. Tilden-Coil Constructors, Inc. constructed the facility in less than four months.



New Security Measures at CDFA Headquarters

December brought new security measures for all visitors and employees at the CDFA Sacramento headquarters building at 1220 N Street. Security personnel will ask visitors to sign in and they will be given a temporary visitor's badge. By notifying us in advance of a visit, we can advise Security and minimize delays as you enter the building. Building entrances will continue to be 1220 N Street or 1215 O Street. All side and alley entrances will be locked.



Producer News . . .

The following are tidbits of information from producers around the state:

- ◆ The south valley reports many areas have new alfalfa crops planted.
- ◆ Many dairymen are no longer storing and mixing their commodities and grains, but are trying the option of having their feed mix prepared by the mill and delivered as a complete mix. It is hoped that this will save labor time, increase consistency of the mix, and eliminate any commodity storage/spoilage problems.
- ◆ The southern valley experienced heavy rains in December and snow is visible on the mountains – this is a good sign for water availability in 2002.
- ◆ Bull calves and replacement heifer prices seem to be remaining steady this winter.



Dairy producers are encouraged to send the Department information appropriate to this section by contacting Karen Dapper by phone at 916-654-1456 or by fax at 916-654-0867.

Milk Production Cost Index for California, by Month January 2000 – October 2001

The Department conducts cost of production audits for five dairy regions within California. The latest audit of September-October, 2001, reflects a statewide production cost increase per hundredweight. Cost increases were primarily due to higher feed, labor, replacement, and operating costs. As reflected in the chart below, production costs are quite variable, both within and among the five production areas.

Month	Del Norte / Humboldt		North Bay		North Valley		South Valley		Southern California		Statewide Weighted Average*	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
<i>Dollars per Hundredweight</i>												
January	14.93	14.68	12.33	13.66	12.05	12.60	11.89	12.09	12.14	13.04	12.0350	12.5165
February	14.93	14.68	12.33	13.66	12.05	12.60	11.89	12.09	12.14	13.04	12.0350	12.5165
March	12.45	12.66	12.42	13.10	11.88	12.39	11.78	12.00	12.41	13.20	11.9597	12.3930
April	12.45	12.66	12.42	13.10	11.88	12.39	11.78	12.00	12.41	13.20	11.9597	12.3930
May	11.13	11.43	12.75	13.15	12.14	12.66	12.07	12.39	12.78	13.57	12.2443	12.7255
June	11.13	11.43	12.75	13.15	12.14	12.66	12.07	12.39	12.78	13.57	12.2443	12.7255
July	11.45	11.75	12.76	13.50	12.38	12.75	12.55	12.95	13.21	13.91	12.6254	13.0678
August	11.45	11.75	12.76	13.50	12.38	12.75	12.55	12.95	13.21	13.91	12.6254	13.0678
September	12.27	12.89	13.10	13.57	12.57	13.04	12.48	12.99	13.20	14.19	12.6780	13.2516
October	12.27	12.89	13.10	13.57	12.57	13.04	12.48	12.99	13.20	14.19	12.6780	13.2516
November	13.29		13.29		12.55		12.21		12.92		12.5172	
December	13.29		13.29		12.55		12.21		12.92		12.5172	

* All costs per hundredweight of 3.5% / 8.7% milk

MARKET TRENDS IN THE CALIFORNIA ALFALFA INDUSTRY

By Seth Hoyt, Senior Agricultural Economist

California hay growers found 2001 to be a positive year as prices outpaced even the most optimistic forecast. While hay prices were near or above record highs, profits were squeezed in some areas because of higher costs for water and energy. Because of very low hay stocks in California and the west in the spring of 2001, prices for all qualities of alfalfa surged upward through the year. With strong prices on dry cow alfalfa, some growers, particularly in central California were harvesting for tonnage instead of quality and yields were above average in the summer months. Because of strong milk prices and profitability in the dairy industry for most of 2001, many dairy hay buyers were willing to pay higher prices for high TDN test alfalfa hay.

Hay stocks in California on May 1, 2001 were the lowest since 1997. A 17 percent drop in alfalfa hay shipments into California in 2000 compared to the previous year also contributed to the low May 1 stocks. According to CDFA border station reports, shipped alfalfa from other states dropped to 700,000 tons in 2000, compared to 846,000 tons in 1999. Alfalfa hay shipments by truck into California were down 10 percent the first half of 2001, compared to the same period in 2000. Because of reduced supplies of alfalfa hay in Idaho, some Idaho dairy hay buyers were much more aggressive in Nevada and other western states to purchase alfalfa hay. It is interesting that in the July-September 2001 quarter, alfalfa hay shipments increased substantially into California, probably due to the very strong alfalfa hay market. I am estimating that alfalfa hay shipments into California in 2001 may end up being 2 to 3 percent higher than last year, the first year-to-year increase since 1998.

Most of you remember the strong alfalfa hay market in 1997. The same supply and demand fundamentals were evident at the start of the 2001 season. The big difference is that in 2001 there were 210,000 more dairy cows and 90,000 more milk replacement heifers over 500 pounds in California than in 1997. Consumption by these additional dairy cattle alone would require roughly 690,000 more tons of alfalfa hay (my calculations). Based on an average yield of 7 tons per acre, this would translate into approximately 100,000 additional acres of alfalfa hay in California. If you add this to the estimated 950,000 acres we had in 1997, we would need approximately 1,050,000 acres of alfalfa hay in order to meet the increased consumption. The estimated alfalfa acres in California in 2001 were 1,010,000. Had it not been for the estimated higher yield of 7.2 tons per acre in 2001

(some growers harvested an extra cutting for the season and some were cutting for tonnage in the summer), supplies of alfalfa hay would have even been tighter.

I came up with some very rough numbers (my personal calculations) on alfalfa hay consumption in California in 2001: 1,590,000 dairy cows x 15 pounds per day = 4,353,000 tons/year, 750,000 milk replacement heifers over 500 pounds x 7 pounds per day = 958,000 tons/year, 375,000 dairy heifers under 500 pounds x 3 pounds per day = 205,000 tons/year, 750,000 horses (Animal Drug Company's estimate) x 10 pounds of alfalfa per day (based on 60-70 percent of hay fed to horses being alfalfa or alfalfa mixtures) = 1,370,000 tons/year, 465,000 cattle on feed for slaughter x 1 pound per day = 85,000 tons/year, and industry estimates of 80,000 tons of alfalfa hay exports in 2001 for total consumption of 7,051,000 tons (Does not include hay fed to beef cows, sheep and goats, and for other uses). The estimated alfalfa hay production in California in 2001 is 7,272,000 tons. Add to this a projected 715,000 tons of alfalfa hay imported from other states and an estimated 150,000 tons of alfalfa hay on hand May 1 and the total supply of alfalfa hay in 2001 is around 8,137,000 tons. Based on these rough numbers, my personal guesstimate of hay stocks on hand December 1, 2001, is 1,250,000 tons (Since I gave this talk at the CA Alfalfa Symposium on December 12, 2001 I believe my personal guesstimate is low because of higher production of other hay (oats, sudan, etc.) in California in 2001. I think hay stocks on December 1 (carryover) will be below last year and may be below the 1,598,000 tons in 1997 but will probably be above 1,250,000 tons. Alfalfa hay carryover will still be very tight going into 2002.

Strong demand from retail/horse buyers also contributed to the higher hay market in 2001. I think it was due to short inventories of retail and horse hay and probably not so much of a year-to-year increase in horse numbers. I do believe there is some fluctuation in horse numbers when economic conditions change. With very strong hay prices and a weakening economy the second half of 2001, maybe there will be a few less horses in California in 2002.

Due to the strong hay market in California and with a continued weak economy in Japan, industry sources indicate that overall hay exports in 2001 were down from last year. This is verified by export data from Washington State University Cooperative Extension which showed that baled hay exports from the west coast to Japan the first six months of 2001 were down

13 percent from the first half of 2000. After a sharp decline in exports in 1998, baled hay exports had been recovering the past two years. Industry sources indicated that overall exports of alfalfa and sudan hay in California were down in 2001, and it appeared that much of the decline was in the northern part of the state.

In late October and early November of this year, I talked with nine companies that sell alfalfa seed. It became very obvious to me that alfalfa acres in California should be up in 2002. The seed guys are guessing new acres of alfalfa in California will be up 5 to 15 percent from 2000. However, a few said some of their growers were waiting until around March to plant to see what the water picture looks like. But others mentioned that some growers planted early in the fall of 2001 to take advantage of what could be a strong alfalfa hay market next spring.

Analyzing different acreage scenarios, I believe one can get a general idea of how the hay market may respond next year. For example, if alfalfa acres were up 5 percent in 2002 (at approximately 1,060,000 acres) and based on my calculations of higher acreage in order to meet the growing dairy demand, the market would probably absorb the increased acres and continue to be strong. That is if everything else remained about the same as in 2001 (retail/horse and export demand and about the same amount of alfalfa trucked into California from out-of-state). Also, this is based on an average yield of 7 tons per acre for the season in California.

Figuring a 10 percent increase in acreage, to approximately 1,110,000 acres, I believe the market might face some challenges the second half of the year. This would be highest acreage since the 1,100,000 in 1988 or the 1,140,000 in 1977. At this level, I personally think the market will be lower for the year but probably not a train wreck. This is because, for the second consecutive year, early indications point to low stocks going into 2002. Even with 10 percent more acres, the market the first half of 2002 may remain strong, but possibly not as high as the second half of 2001. This could be due to lower milk prices compared to last summer and early fall's very strong market. With 10 percent more alfalfa acres, I believe prices will be weak the second half of 2002 and this could push the overall market lower for the year.

If alfalfa hay acres are up 15 percent, to 1,160,000 acres, there are some additional challenges. This would be the most acreage since 1973. I still believe the early demand in 2002 would be good as dairymen, especially those who didn't fill up this past fall, come into the market. I think the early alfalfa

cuttings in the southern desert will find good demand. However, by the summer, supplies could be building rapidly. In the 15 percent or higher acreage scenarios and possibly even at the 10 percent level, some, if not many growers, may take out or dry up old stands in the summer. With a significant increase in alfalfa acres, hay stocks in the fall of 2002 would probably be higher than the previous two to three years.


Having gone through the various scenarios on acreage, the key variable is **water**. Water will have a big impact on acreage and production. Up to late December, 2001, the early season rainfall and snow pack are above normal in many parts of central and northern California, which is encouraging.

If the alfalfa and other hay markets in 2002 average below 2001, hay exports could pick up. It appears that hay export buyers from Southeast Asia will continue to be price sensitive in 2002. The weak Japanese economy and the impacts of "Mad Cow Disease" on the Japanese beef cattle and dairy industries will have an impact on export hay demand from Japan.

The retail and horse market on alfalfa and other hay in California in 2002 may follow the same seasonal demand pattern as hay for the dairy trade. Low carryover supplies may keep the market strong early but, depending on acreage, the market could soften the second half of the year if acreage is up and supplies of horse quality alfalfa hay start to build.

After being one of few agricultural commodities in California that were profitable in 2001, indications point to increased alfalfa hay acreage in 2002. The one key element that could temper the acreage increase and alfalfa hay production next year would be **tight water supplies**.

With the continued growth of the California dairy industry, we may be entering an era where alfalfa hay acres are at levels not seen in many years. Dairy industry sources indicate that expanding cheese production in California will continue to push the dairy cow inventory higher. The alfalfa hay market could be strong in early 2002 as some dairymen enter the year with light hay supplies. If California alfalfa acres increase significantly in 2002, prices could weaken as the year progresses, with the most bearish market in the second half of the year.

NOTE: I dedicate this article/talk and future articles/talks dealing with markets and conditions to my friend Geof Dong. Geof, who worked for CDFA's Dairy Marketing Branch, passed away on December 27, 2001. In the 18 years that Geof worked for Market News as a Livestock and Hay Reporter, he was highly respected and had the "pulse" on markets and conditions. 

DECISION - Continued from page 1

(frozen products) pricing formulas are set as a fixed differential above Class 4a (butter and nonfat dry milk) prices, the adjustments made in the Class 4a manufacturing cost allowances will also be reflected in Class 2 and 3 prices. Copies of the Department's decision may be obtained by contacting the Dairy Marketing Branch at 916-654-1456 or by downloading a copy from the Department's website at www.cdfa.ca.gov/dairy. ☀

California Milk Processor Board Appointments

The Marketing Order for Fluid Milk Products provides for an administrative body known as the California Milk Processor Board (CMPB). The CMPB is composed of nine members from three districts and one member-at-large, all of whom shall be handlers of fluid milk products. CDFA recently conducted nomination procedures to fill the CMPB district positions and based on these procedures, the following individuals have been appointed to serve a three-year term:

Northern California (3 members)

Herm Benedetti* (Clover-Stornetta Farms, Inc.)

Michael Lasky* (Berkeley Farms, Inc.)

Kelly Olds (Super Store Industries)

South Valley (1 member)

Richard Shehadey* (Producers Dairy Foods)

Southern California (5 members)

Ted De Groot* (Rockview Farms)

Thomas P. Dolan* (Driftwood Dairy)

Pat McColgan (Dean Foods)

Richard Walrack* (Santee Dairies, Inc.)

Jim Wegner* (Safeway) * Signifies incumbent

Pursuant to the Marketing Order for Fluid Milk Products, the member-at-large position, currently held by Mr. Steve James with Swiss Dairy, will be filled based upon a recommendation of the CMPB to CDFA. If you have any questions, please contact Jeff Manning, CMPB Executive Director, at (510) 883-1085 or Steven Donaldson, CDFA Marketing Branch, at (916) 654-1245. ☀

Getting to Know Us . . .

In response to reader request, the Dairy Review will highlight a Branch employee each month - hopefully this will help you connect faces with voices, and help you get to know us better!



Edward Hunter Manufacturing Cost Unit

Although I grew up on a small farm outside of Roseville, California, my formative years were spent living in New York City during the 1960's. Most of my early life experiences

were found in the various neighborhoods of Manhattan and on Flatbush Avenue in Brooklyn.

In 1969, after getting married in the Bay Ridge section of Brooklyn, I moved back to California and was soon hired as an Auditor I in the Milk Stabilization Branch of the California Department of Agriculture (the name at that time). I worked under Bob Wilson, who, interestingly enough, went to the same high school as my mother. The first few years I worked in the Branch, we only audited fluid milk plants because during this period, California controlled minimum wholesale and retail dairy prices. It was during that time that I learned about the dairy industry and dairy accounting while under the tutelage of such well-known professionals as Bob Abbott, Henry Krawiecki, Jean Croteau, Archie Ballinger, Jim Zinsli, and Gene Ranck.

After I became Supervising Auditor of the unit, about 20 years ago, we began doing cost audits on dairy manufacturing plants in order to capture processing costs on Class 4 products, which are then used in our pricing hearings. I have been very fortunate to have throughout these years a very capable and dedicated staff that has made my job both easier and enjoyable. I have also been privileged to become acquainted with some very fine people in the dairy industry and have some friendships going back 25 years.

At the present time, I'm a proud father of six grown children (3 boys and 3 girls) ages 18 to 31. I also have five grandchildren. ☀

In Memoriam

Geof Dong suffered a heart attack and passed away on December 27, 2001; he was 52 years old.

Geof was born and raised in Sacramento and graduated from Cal Poly, San Luis Obispo. He worked for the California Department of Food and Agriculture (CDFA) for 25 years. Geof's career at CDFA began with the Market News Branch as a livestock, hay and grain reporter. With the closure of the Market News Branch in 1996, Geof transferred to the Dairy Marketing Branch to collect cost of production information from dairies. He worked in the North Bay and North Valley regions of the state. Geof was a good friend to all of us in the Dairy Marketing Branch as well as to many in the livestock and dairy industries. He will be missed.

Hundredweight Pool Prices

Month	Quota	Overbase
June '00	\$12.78	\$11.08
July	\$13.00	\$11.30
August	\$13.02	\$11.32
September	\$13.31	\$11.61
October	\$12.29	\$10.59
November	\$12.69	\$10.99
December	\$12.98	\$11.28
January '01	\$12.73	\$11.03
February	\$13.04	\$11.34
March	\$13.88	\$12.18
April	\$14.65	\$12.95
May	\$15.70	\$14.00
June	\$16.46	\$14.76
July	\$16.35	\$14.65
August	\$16.70	\$15.00
September	\$16.95	\$15.25
October	\$14.71	\$13.01
November	\$13.67	\$11.97

2001 Mailbox Prices in Dollars per Hundredweight

	March	April	May	June	July	August	September
California ¹	\$12.95	\$13.71	\$14.54	\$15.23	\$15.13	\$15.54	\$15.95
USDA ²	\$13.79	\$14.29	\$15.29	\$15.95	\$15.92	-----	-----

¹ California mailbox price calculated by CDFA.

² All federal milk market order weighted average, as calculated by USDA.

